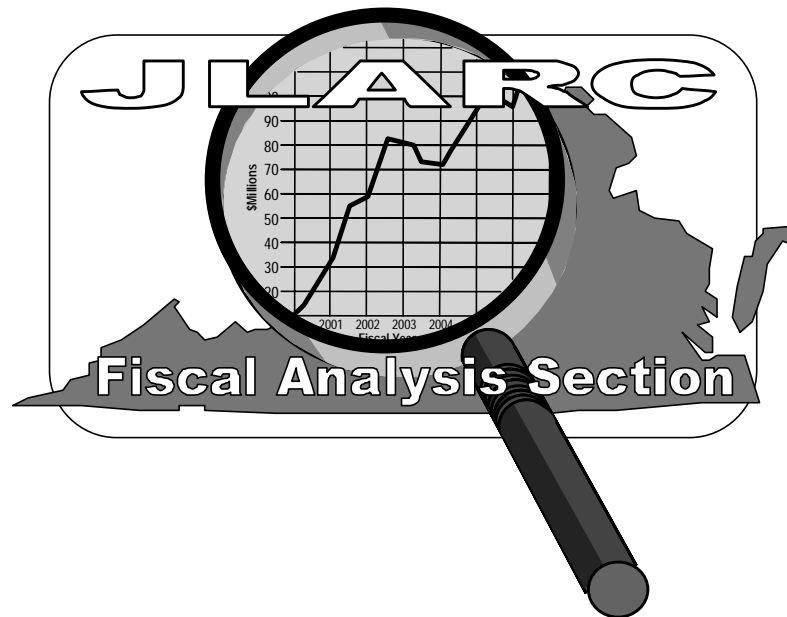


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Special Report:
State Business Incentive
Grant Programs**

**Staff Briefing
Gregory J. Rest, Project Leader
November 12, 2002**

Presentation Outline

2

- ☒ **Background**
- ☐ **Follow-Up of 1997 and 1998 Projects**
- ☐ **State Obligations to Fund Grants in Future Years**
- ☐ **Conclusions**

Study Mandate

3

- At its July 2002 meeting, the Joint Legislative Audit and Review Commission directed staff to examine long-term costs and benefits of major business incentive grants made by the State.
- JLARC staff were also requested to report on financial obligations the State may have made through business incentive grant programs in future years.

Purpose of State Business Incentive Grant Programs

4

- To attract companies that are considering locating or expanding in Virginia, especially when other states or countries are competing.
- These programs generally offer grants for:
 - Workforce training
 - Site acquisition and development
 - Construction
 - Transportation access
 - Other capital expenditures
 - Other specified purposes

Business Incentive Grant Programs Included in this Report

5

■ Governor's Opportunity Fund

■ Workforce Services

■ Others

- **Virginia Investment Partnership**
- **Semiconductor Manufacturing Performance Grant Program**
- **Enterprise Zone Job Grants**
- **Solarphotovoltaic Manufacturing Incentive Grants**
- **Industrial Access Road Program**
- **Rail Industrial Access Program**

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6

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Follow-Up on Projects Announced in 1997 and 1998 to be Receiving Grants

7

- Governor's Office and Virginia Economic Development Partnership (VEDP) issued press releases on 89 companies receiving State business incentive grants in 1997 and 1998.
- Grants were primarily from Governor's Opportunity Fund and Workforce Services.
- Press releases stated how many new jobs would be created and how much money companies were investing in Virginia.
- Purpose of follow-up review:
 - To see how many jobs actually materialized
 - To see how many of these jobs are still intact 3 ½ to 5 ½ years later
 - To determine whether the State appears to recover the money it put into attracting these companies to Virginia.

Why Choose These Projects to Examine Long-Term Costs and Benefits?

8

- Press releases describing projects are public information and set initial expectations.
- Allows 3 ½ to 5 ½ years for projects in 1997 and 1998 press releases to produce the jobs announced.
- Calendar Years 1997 and 1998 cover two administrations.
- 1997 is the first complete year press releases were accessible on Internet.

Fundamental Assumption: Incentive Grants Were Essential for Projects to Locate in Virginia

9

- **Virginia competed with other states or countries for these 89 projects.**
- **VEDP, VDBA, and local economic development officials emphasized:**
 - **Grants provided tangible symbol that State government really wanted business to consider Virginia location.**
 - **Without these grants, Virginia would not have been seriously considered for these projects.**

Two Measures of Jobs

10

■ Short-Term Job Counts

- Generally collected by Virginia Department of Business Assistance (VDBA)
- Typically jobs created by companies within one or two years after project was initiated

■ Long-Term Job Counts

- From VDBA records, or JLARC staff contact with local economic development officials
- Represents most recent count of jobs attributable to project (three to five years after project was initiated)

Many Anticipated Jobs Did Not Materialize, But Projects Exceeding Expectations Made Up for Them

11

■ Of 89 projects, “Short-Term Job Counts” indicate:

- 17 fell through – did not happen
- 44 fell short of meeting stated target (in short term)
- 28 met or exceeded number of jobs anticipated

Several produced two, three or four *times* the expected number of jobs

■ “Long-Term Job Counts” indicate number of jobs:

- Stayed the same: roughly one-quarter of projects
- Increased: over one-half of projects
- Decreased: roughly one-quarter of projects

Many Anticipated Jobs Did Not Materialize, But Projects Exceeding Expectations Made Up for Them (Continued)

12

<u>Year</u>	<u>Announced # Jobs</u>	<u>Short- Term Job Counts*</u>	<u>Long- Term Job Counts**</u>
1997	11,742	12,595	16,176
1998	18,055	9,321	14,310
TOTAL	29,797	21,916	30,486

*Within 1-2 years after project initiated

** Most recent job count (2001-2002)

JLARC Staff Estimated Individual Income Tax Revenues from Created Jobs

13

- **VDBA and VEDP collect data on average wages of jobs created**

- **To estimate individual income tax revenues conservatively, JLARC staff assumed relatively high level of deductions and exemptions claimed against Virginia taxable income:**
 - **Married filing jointly with standard deduction (\$5,000)**
 - **Family of four (four \$800 exemptions)**

- **Individual Income Tax Revenues =**

 $[(\text{avg. annual wage} - \text{deductions}) \times (\text{tax rates})] \times (\# \text{ jobs})$

State Recovers Costs of Grants through Individual Income Tax Revenues within Three Years

14

<u>Year</u>	<u>State Project Costs (\$)</u>		<u>Estimated Annual VA Individual Income Tax (\$)</u>	
	<u>Governor's Opportunity Fund</u>	<u>Workforce Services</u>	<u>Based on Actual Jobs Created</u>	<u>Based on Follow-Up Jobs</u>
1997	7,130,000	10,073,354	7,815,308	12,048,086
1998	8,650,000	5,919,679	5,464,921	15,221,367
Total	15,780,000	15,993,033	13,280,229	27,269,453

Comparing Benefits to Costs of Business Incentive Grants

15

- **Other economic impacts were not quantified in this report:**
 - Sales tax revenues
 - Corporate income tax revenues
 - Investments in facilities (resulting in local construction jobs and purchasing of materials and equipment).
- **Illustration based on individual income tax revenues is sufficient to draw two conclusions:**
 - The State recovers the cost of Governor's Opportunity Fund and Workforce Services grants in short amount of time; and
 - The State generally continues to benefit from these projects afterwards.

Some Businesses May Not Benefit All Virginians

16

- **Internet search on companies receiving business incentive grants revealed some may not have desirable effects on Virginia citizens.**
- **Examples:**
 - **Telemarketing firm sued or investigated in other 20 states for deceptive practices.**
 - **Firm cited by State and federal environmental agencies for pollution.**
- **Additional screening of companies appears warranted before the State awards them grants to locate in Virginia.**

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17

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How Much Has the State Promised to Pay for Business Incentive Grants in Future Years?

18

■ Table 3 shows the maximum amounts the State has promised to pay in future years if all businesses meet all performance criteria. However:

- Not all companies are likely to meet performance criteria.
- Some programs are subject to General Assembly appropriations, meaning General Assembly may appropriate smaller amounts.

■ Table 4 represents alternative estimates of State commitment, if

- Some companies do not meet performance criteria; or
- General Assembly made policy decision other than appropriating amounts specified in *Code of Virginia*.

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19

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Conclusions

20

- **If the State eliminated funding of its two (currently) largest business incentive grant programs, there would be longer-term consequences:**
 - **Fewer new jobs would likely be created or transferred to Virginia.**
 - **In two or three years, State's resulting loss in individual income tax revenues would likely be more than amount saved by cutting these programs.**
 - **There would likely be less sales tax and corporate income tax revenue, and less indirect economic activity.**

Conclusions

(Continued)

21

- **The State may wish to screen companies further for indicators of possible undesirable effects.**
- **The State has promised some companies sizable grants in future years after the current biennium, which would require new appropriations by the General Assembly. However:**
 - **Not all companies will likely meet required performance criteria; and**
 - **General Assembly has prerogative to fund maximum amounts, or less, in making its appropriations in future years.**
 - **VEDP staff expressed concern that not fully funding agreed-upon amount with companies may undercut State's future economic development efforts.**

Recommendations

22

Recommendation (1). The General Assembly may wish to consider the likely benefits and costs of business incentive grant programs when determining future appropriations. In particular, because the benefits appear to outweigh the costs in two to three years, the General Assembly may wish to continue funding the Governor's Opportunity Fund and the Virginia Department of Business Assistance's Workforce Services program.

Recommendation (2). The Department of Business Assistance, the Virginia Economic Development Partnership, and other agencies awarding business incentive grants to private companies should screen them for undesirable impacts they may have on Virginians before awarding them incentives to locate in Virginia.